

AUDIT REPORT

TOWN OF DEWAR, OKLAHOMA

DECEMBER 31, 2014

KERSHAW CPA & ASSOCIATES, PC

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TOWN OF DEWAR, OKLAHOMA
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Dewar, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Dewar, Oklahoma, as of and for the fiscal year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

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accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

Basis for Qualified Opinion on the Financial Statements as a Whole

The Town did not maintain a proper double-entry general ledger system during the year. The accounting system in use by the Town does not provide consistent accurately separated fund financial statements. Income and expenses can easily be posted to other funds and make each fund out of balance requiring significant adjustment.

Qualified Opinions

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Financial Statements as a Whole" paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Dewar, Oklahoma, as of December 31, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Town of Dewar's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018, on our consideration of the Town of Dewar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on

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the effectiveness of Town of Dewar's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Dewar's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

April 20, 2018

TOWN OF DEWAR, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2014 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 48,152	\$ 38,156	\$ 86,308
Restricted cash and cash equivalents	-	68,864	68,864
Due from other funds	34,174	-	34,174
Total Current Assets	82,326	107,020	189,347
TOTAL ASSETS	82,326	107,020	189,347
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Due to other funds	34,174	-	34,174
Total Current Liabilities	34,174	-	34,174
<u>Long-Term Liabilities:</u>			
Customer Meter Deposits	-	29,491	29,491
Total Long-Term Liabilities	-	29,491	29,491
TOTAL LIABILITIES	34,174	29,491	63,665
<u>NET POSITION</u>			
Net investment in capital assets	-	-	-
Restricted for:			
Debt Service	-	-	-
Other Purposes	45,326	-	45,326
Unrestricted	2,826	77,530	80,356
TOTAL NET POSITION	\$ 48,152	\$ 77,530	\$ 125,682

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF DEWAR, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 86,878	\$ -	\$ -	\$ -	\$ (86,878)
Public Safety	119,024	37,542	4,484	-	(76,998)
Highways & Streets	25,359	-	-	-	(25,359)
Debt Service	18,414	-	-	-	(18,414)
Total Governmental Activities	249,675	37,542	4,484	-	(207,649)
Business-type activities:					
Water	205,923	186,435	-	-	(19,488)
Sewer	9,670	60,595	-	-	50,925
Sanitation	78,266	78,800	-	-	535
Emergency Services	3,479	3,244	-	-	(235)
Debt Service	38,976	-	-	-	(38,976)
Total Business-type Activities	336,314	329,074	-	-	(7,239)
Total	\$ 585,989	\$ 366,616	\$ 4,484	\$ -	\$ (214,889)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (207,649)	\$ (7,239)	\$ (214,889)
General revenues:			
Taxes:			
Sales Tax	116,416	-	116,416
Use Tax	3,726	-	3,726
Tobacco Tax	1,343	-	1,343
Franchise Tax	17,890	-	17,890
Intergovernmental:			
Motor Vehicle Tax	5,986	-	5,986
Alcoholic Beverage Tax	4,930	-	4,930
Gasoline Excise Tax	921	-	921
Licenses & Permits	130	-	130
Miscellaneous Income	41,279	29,511	70,790
Interest Income	-	208	208
Transfers - Internal Activity	939	(939)	-
Total general revenues & transfers	193,560	28,781	222,341
Changes in Net Position	(14,089)	21,542	7,452
Net Position - beginning	93,821	18,040	111,861
Net Position - prior year adjustment	(31,579)	28,278	(3,301)
Net Position - ending	\$ 48,152	\$ 67,860	\$ 116,012

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF DEWAR, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General Fund	Dedicated Sales Tax	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 37,000	\$ 11,152	\$ -	\$ 48,152
Due from other funds	-	34,174	-	34,174
TOTAL ASSETS	<u>\$ 37,000</u>	<u>\$ 45,326</u>	<u>\$ -</u>	<u>\$ 82,326</u>
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Payroll Taxes Payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	34,174	-	-	34,174
TOTAL LIABILITIES	<u>34,174</u>	<u>-</u>	<u>-</u>	<u>34,174</u>
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	45,326	-	45,326
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	2,826	-	-	2,826
TOTAL FUND BALANCES	<u>2,826</u>	<u>45,326</u>	<u>-</u>	<u>48,152</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 37,000</u>	<u>\$ 45,326</u>	<u>\$ -</u>	

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of Net Position are different because:

Capital assets used in governmental activities of \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds.	-
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	-
Net Position of Governmental Activities	<u><u>\$ 48,152</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF DEWAR, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

	General Fund	Dedicated Sales Tax	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	\$ 87,312	\$ 29,104	\$ -	116,416
Use Tax	3,726	-	-	3,726
Tobacco Tax	1,343	-	-	1,343
Franchise Tax	17,890	-	-	17,890
Intergovernmental:				
Motor Vehicle Tax	5,986	-	-	5,986
Alcoholic Beverage Tax	4,930	-	-	4,930
Gasoline Excise Tax	921	-	-	921
Grants	4,484	-	-	4,484
Fines & Forfeitures	34,842	-	-	34,842
Licenses & Permits	130	-	-	130
Miscellaneous Income	43,979	-	-	43,979
Interest Income	-	-	-	-
TOTAL REVENUES	205,543	29,104	-	234,647
EXPENDITURES:				
General Government	86,878	-	-	86,878
Public Safety - Fire	9,169	23,916	-	33,085
Public Safety - Police	85,939	-	-	85,939
Highways & Streets	25,359	-	-	25,359
Debt Service	7,310	11,104	-	18,414
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	214,655	35,020	-	249,675
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,112)	(5,916)	-	(15,028)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	939	-	939
Operating Transfers Out	-	-	-	-
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	939	-	939
NET CHANGES IN FUND BALANCES	(9,112)	(4,977)	-	(14,089)
FUND BALANCE - BEGINNING OF YEAR	43,517	50,304	-	93,821
FUND BALANCE - PRIOR YEAR ADJUSTMENT	(31,579)	-	-	(31,579)
FUND BALANCE - END OF YEAR	\$ 2,826	\$ 45,326	\$ -	48,152

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT D (CONTINUED)

TOWN OF DEWAR, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$ (14,089)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Capital debt obligation principal payments	-
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Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

Capital Debt Proceeds	-
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	-
Depreciation expense	-

	<hr style="border: none; border-top: 1px solid black;"/> \$ (14,089)
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF DEWAR, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
DECEMBER 31, 2014

	<u>Dewar Public Works Authority Enterprise Fund</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 38,156
Restricted cash and cash equivalents	<u>68,864</u>
Total Current Assets	<u>107,020</u>
TOTAL ASSETS	<u>107,020</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Due to Other Funds	<u>-</u>
Total Current Liabilities	<u>-</u>
Noncurrent Liabilities:	
Customer meter deposits	<u>29,491</u>
Total Noncurrent Liabilities	<u>29,491</u>
TOTAL LIABILITIES	<u>29,491</u>
<u>NET POSITION</u>	
Net investment in capital assets	-
Restricted for debt service	68,864
Unrestricted	<u>8,666</u>
TOTAL NET POSITION	<u><u>\$ 77,530</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF DEWAR, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

	<u>Dewar Public Works Authority Enterprise Fund</u>
<u>OPERATING REVENUES:</u>	
Charges for services:	
Water	\$ 186,435
Sewer	60,595
Sanitation	78,800
Emergency services	3,244
Other income	29,511
TOTAL OPERATING REVENUES	<u>358,586</u>
<u>OPERATING EXPENSES:</u>	
Water	205,923
Sewer	-
Sanitation	78,266
Emergency services	3,479
TOTAL OPERATING EXPENSES	<u>287,668</u>
NET OPERATING INCOME (LOSS)	<u>70,918</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	208
Debt Service:	
Principal retirement	(29,306)
Interest Expense	(9,670)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(38,768)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	32,150
Capital Contributions	-
Transfers in	-
Transfers out	(939)
CHANGE IN NET POSITION	31,212
TOTAL NET POSITION - BEGINNING	18,040
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	28,278
TOTAL NET POSITION - ENDING	<u><u>\$ 77,530</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF DEWAR, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

	<u>2014</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 358,586
Other Cash Receipts	-
Payments to Suppliers, Employees & Laborers	(287,668)
Receipts of Customer Utility Deposits, Net of Refunds	<u>3,816</u>
Net Cash Provided (Used) by Operating Activities	<u>74,734</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfers in	-
Operating Transfers Out	<u>(939)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(939)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital Contributions	-
Loan Proceeds received	-
Principal paid on Notes	(29,306)
Interest paid on Notes	<u>(9,670)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(38,976)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest Income	<u>208</u>
Net Cash Provided (Used) by Investing Activities	<u>208</u>
Net Increase (Decrease) in Cash and Cash Equivalents	35,027
Cash & Cash Equivalents, Beginning of Year	71,577
Cash & Cash Equivalents, Prior Year Adjustment	416
Cash & Cash Equivalents, End of Year	<u><u>\$ 107,020</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 70,918
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Other payable	-
Increase(Decrease) in Customer Deposits	3,816
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 74,734</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Dewar
Blended Component Units:	Dewar Public Works Authority (GPWA)

PRIMARY GOVERNMENT

The Town of Dewar, Oklahoma (Town) operates under the Town Board of Trustees form of government.

The Town provides the following services: public safety, health and welfare, streets and highways, parks and recreation, economic and community development and general administrative services. The Dewar Public Works Authority (Enterprise Fund) provides water, sewer and sanitation services to the citizens of the Town.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Dewar Public Works Authority. The Town board of trustees, and PWA board of directors are the same.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are a least 10 percent of the corresponding total for all funds of that category or type.
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds:

Street & Alley Fund - used to account for gasoline excise and commercial vehicle taxes legally restricted for street & alley improvements.

Dedicated Sales Tax Fund - used to account for one cent of sales tax restricted by the voters for fire equipment and street maintenance and improvements.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for the acquisition, operation and maintenance of Town facilities which are financed primarily by user charges. The Enterprise funds are accounted for similar to activities of the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The Dewar Public Works Authority is accounted for as the Town's Enterprise Fund.

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Dewar Public Works Authority	Accounts for the activities of the public trust in providing water, sewer and sanitation services to the public.
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C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented used the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

CAPITAL ASSETS

The Town has not maintained capital asset records.

ESTIMATES

The preparation of financial statements, in conformity with the modified cash basis of accounting, requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NET POSITION/FUND BALANCE CLASSIFICATION

Government-Wide Statements

Net Position is classified and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Fund Financial Statements

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purposes of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Street & Alley Fund	Vehicle Tax Gasoline Excise Tax

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Dedicated Sales Tax Fund

1% of Sales Tax

REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission.

Property Tax

For the year ended December 31, 2014, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Enterprise Fund Revenues

Revenues consist of sales of water, sewer, and sanitation services to individuals, business owners, and others within the Town corporate limits and nearby area.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types - By Character: Current (further
classified by activity)
Capital Outlay
Proprietary Fund Types - By Operating and Non-Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations.

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Authority for this fiscal year.

NOTE 3 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At December 31, 2014, the Town held deposits of approximately \$155,173 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school Town tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school Town.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Federal Housing Administrator, and in obligations of the National Mortgage Association.

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

Capital Lease Payable - Welch State Bank

The Town has a capital lease payable to Welch State Bank, payable in monthly installments of \$925.36 until maturity in July 2019 with an interest rate of 5.38%. The original amount of the lease was \$95,700.00 and is payable from the Dedicated Sales Tax Fund.

Note Payable - American Exchange Bank

The Town has a note payable to American Exchange Bank, payable in monthly installments of \$604.00 until maturity in March 2018 with an interest rate of 3.60%. The original amount of the lease was \$33,045.00 and is payable from the General Fund.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2014:

	Balance at Dec. 31, 2013	Additions	Deductions	Balance at Dec. 31, 2014
Welch State Bank	\$ 53,374.18	\$ -	\$ (7,611.05)	\$ 45,763.13
American Exchange Bank	28,493.14	-	(6,288.56)	22,204.58
Total Long-Term Debt	<u>\$ 81,867.32</u>	<u>\$ -</u>	<u>\$ (13,899.61)</u>	<u>\$ 67,967.71</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for governmental activities long-term debt, as of December 31, 2014, are as follows:

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Capital Lease Payable - Welch State Bank			
Year Ended	Principal	Interest	Total Payment
Dec. 31,			
2015	\$ 45,763.13	\$ 1,025.21	\$ 46,788.34
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020-2024	-	-	-
Total	<u>\$ 45,763.13</u>	<u>\$ 1,025.21</u>	<u>\$ 46,788.34</u>

Note Payable - American Exchange Bank			
Year Ended	Principal	Interest	Total Payment
Dec. 31,			
2015	\$ 6,540.91	\$ 705.89	\$ 7,246.80
2016	6,816.56	430.24	7,246.80
2017	7,043.78	203.02	7,246.80
2018	1,803.33	10.83	1,814.16
2019	-	-	-
2020-2024	-	-	-
Total	<u>\$ 22,204.58</u>	<u>\$ 1,349.98</u>	<u>\$ 23,554.56</u>

BUSINESS-TYPE ACTIVITIES

ENTERPRISE FUND - DEWAR PUBLIC WORKS AUTHORITY

Refundable Customer Deposits

Refundable deposits reported as a liability within the Statement of Net Position are utility deposits.

Note Payable - American Exchange Bank

The Authority has a note payable to American Exchange Bank, payable in one installment of \$7,020.00, including principal & interest until maturity in February 2014 with an interest rate of 6.0493%. This note was paid off during 2014.

Note Payable - USDA RD 91-01

The Authority has a note payable (91-01) to USDA Rural Development, payable in monthly installments of \$1,351 until maturity in November 2019, including interest at 5%. The original amount of the loan was \$267,800.00.

Note Payable - USDA RD 91-03

The Authority has a note payable (91-03) to USDA Rural Development, payable in monthly installments of \$376 until maturity in December

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

2032, including interest at 5%. The original amount of the loan was \$76,500.00.

Note Payable - USDA RD 91-06

The Authority has a note payable (91-06) to USDA Rural Development, payable in monthly installments of \$1,521, after first year interest only payment of \$1,297, until maturity in April 2039, including interest at 4.5%. The original amount of the loan was \$335,000.00.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2014:

	Balance at Dec. 31, 2013	Additions	Deductions	Balance at Dec. 31, 2014
Refundable deposits	\$ 25,675.00	\$ 4,710.00	\$ (894.49)	\$ 29,490.51
Note Payable - AEB	7,020.00	-	(7,020.00)	-
Note Payable - 91-01	43,145.94	-	(14,381.80)	28,764.14
Note Payable - 91-03	54,741.66	-	(1,816.29)	52,925.37
Note Payable - 91-06	273,095.87	-	(6,087.72)	267,008.15
Total Long-Term Debt	<u>\$ 403,678.47</u>	<u>\$ 4,710.00</u>	<u>\$ (30,200.30)</u>	<u>\$ 378,188.17</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2014, are as follows:

	<u>Note Payable - USDA Rural Development 91-01</u>		
Year Ended	Principal	Interest	Total Payment
Dec. 31			
2015	\$ 15,117.58	\$ 1,094.42	\$ 16,212.00
2016	13,646.56	324.64	13,971.20
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020-2024	-	-	-
Total	<u>\$ 28,764.14</u>	<u>\$ 1,419.06</u>	<u>\$ 30,183.20</u>

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note Payable - USDA Rural Development 91-03			
Year Ended	Principal	Interest	Total Payment
Dec. 31			
2015	\$ 1,909.22	\$ 2,602.78	\$ 4,512.00
2016	2,006.90	2,505.10	4,512.00
2017	2,109.44	2,402.56	4,512.00
2018	2,217.37	2,294.63	4,512.00
2019	2,330.81	2,181.19	4,512.00
2020-2024	13,569.57	8,990.43	22,560.00
2025-2029	17,414.60	5,145.40	22,560.00
2030-2032	11,367.46	807.87	12,175.33
Total	<u>\$ 52,925.37</u>	<u>\$ 26,929.96</u>	<u>\$ 79,855.33</u>

Note Payable - USDA Rural Development 91-06			
Year Ended	Principal	Interest	Total Payment
Dec. 31			
2015	\$ 6,367.37	\$ 11,884.63	\$ 18,252.00
2016	6,659.91	11,592.09	18,252.00
2017	6,965.35	11,286.65	18,252.00
2018	7,285.35	10,966.65	18,252.00
2019	7,620.02	10,631.98	18,252.00
2020-2024	43,684.02	47,575.98	91,260.00
2025-2029	54,683.47	36,576.53	91,260.00
2030-2034	68,452.58	22,807.42	91,260.00
2035-2038	65,290.08	6,030.78	71,320.86
Total	<u>\$ 267,008.15</u>	<u>\$ 169,352.71</u>	<u>\$ 436,360.86</u>

NOTE 5 - FUND EQUITY

As described in Note 1 above, equity is classified as Net Position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Fund Balances

Town of Dewar, Oklahoma
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending December 31, 2014

	General Fund	Dedicated Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Assigned to:				
Fire Equipment & Street Improvements	\$ -	\$ 45,326	\$ -	\$ 45,326
Unassigned	2,826	-	-	2,826
Total	<u>\$ 2,826</u>	<u>\$ 45,326</u>	<u>\$ -</u>	<u>\$ 48,152</u>

NOTE 6 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The Town participates in certain federal and state grant programs as available; currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

NOTE 7 - EMPLOYEE PENSION AND OTHER BENEFIT PLANS

Oklahoma Firefighter's Pension and Retirement System (OFPRS):

The Town's volunteer firemen participate in the Oklahoma State Firefighter's Pension and Retirement System. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of

TOWN OF DEWAR, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

service, whichever is later. The total contribution for the year ended December 31, 2014 was \$660 and covered 11 volunteers.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414 and is also available at www.ok.gov/fprs under the "GASB" tab labeled "2014-GASB 68 Accounting Supplement."

NOTE 8 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through April 20, 2018, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2014.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Town of Dewar, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Dewar, Oklahoma, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Dewar, Oklahoma's basic financial statements, and have issued our report thereon dated April 20, 2018, which was a qualified opinion because of the improper fund accounting system.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Dewar's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Dewar's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Dewar's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or *detect and correct misstatements on a timely basis*. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 14-01, 14-02 & 14-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Dewar's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 14-04. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Town of Dewar's Response to Findings

Town of Dewar's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Dewar's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

April 20, 2018

TOWN OF DEWAR, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2014

INTERNAL CONTROL FINDINGS

Item 14-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Trustees have concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

Item 14-02: Accounting System

Condition: The Town did not maintain a proper double-entry general ledger system during the year.

Effect: The accounting system in use by the Town does not provide consistent accurately separated fund financial statements. Income and expenses can easily be posted to other funds and make each fund out of balance requiring significant adjustment.

Recommendation: The Town has been advised that as long as this type of accounting system is used that it is imperative that a debit or credit to a particular fund must be accompanied by the corresponding debit or credit being posted to the same fund. Posting across funds is what throws the fund financials out of balance.

TOWN OF DEWAR, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2014

Response: The Town is aware of the need to make each transaction post both the debit and credit to an individual fund. The Town hopes that this increased awareness will result in an improvement in processing of accounting transactions for the next fiscal year.

Item 14-03: Traffic Tickets

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town's tracking system relating to issued traffic tickets does not include maintaining a master list of all tickets issued. The tickets issued are put in a folder and marked as paid.

Cause/Effect: Not maintaining a master list can result in a failure to maintain records in an accurate manner. The financial statements may contain misstatements and omit financial information and have delinquent unpaid traffic tickets at yearend.

Recommendation: A more extensive tracking system needs to be maintained on issued traffic tickets to minimize loss of revenue.

Response: The Town is aware of the situation

COMPLIANCE FINDINGS:

Item 14-04: Designated Sales Tax

Criteria: 1 cent of the sales tax revenue is voter-restricted for fire equipment and street maintenance and improvements in accordance with Town Ordinance 136.

Condition: The Town is not transferring the full amount of restricted sales tax to the proper fund.

Cause/Effect: This has resulted in a large balance due from the General Fund to the Designated Sales Tax Fund.

TOWN OF DEWAR, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2014

Recommendation: The full amount of restricted tax should be put into the proper account each month.

Response: The Town is aware of the situation.